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15 December 2003

Mr. Robert J. Pellatt
Commission Secretary
British Columbia Utilities Commission
PO Box 250
600 – 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Mr. Pellatt:

**RE: British Columbia Hydro and Power Authority (“BC Hydro”)
Revenue Requirements 2004/05 and 2005/06 Application**

BC Hydro encloses an application for an adjustment to its rates on the basis that they are no longer fair, just and reasonable. For the reasons outlined in the application, a general rate increase of 7.23% is accordingly required effective 01 April 2004 and a further increase of 2% effective 01 April 2005. The application also seeks the approval of three new deferral accounts and a reduction in certain wholesale transmission service rates. The application is presented in two volumes as follows:

Volume 1: Application, Supporting Rationale and Data
Volume 2: Appendices

The current rates have been in effect since 01 April 1993. The Commission has not conducted a general review of BC Hydro's rates since 1994. Although the determination by government of the terms of the Heritage Contract should significantly narrow remaining issues relating to the treatment of the Heritage Resources, stepped rates and access principles, the implementation of the Commission's recommendations in these areas will undoubtedly add additional complexity to the proceeding. There is no realistic prospect of the process being complete by 01 April 2004 when the increase is required. The Application makes clear that BC Hydro's return in the year ending 31 March 2004 (F2004) is forecast to be substantially below its permitted return on equity. While no relief is sought relating to F2004, the Application does seek interim rate relief effective as of 01 April 2004 to permit BC Hydro an opportunity to earn its allowed return on equity in F2005.

BC Hydro has filed its application now to give its customers as much advance notice as possible of the interim rate increase proposed for 01 April 2004 and to permit a full review process without causing interim rates to be in effect for an inordinately long period. Over the next few weeks, BC Hydro proposes that the Commission, consistent with its normal practice, conduct a summary review of the application with a view to making an interim order by the end of January 2004 and setting out a detailed timetable for the full review of the application while the rates remain interim. BC Hydro submits

that interim relief is appropriate to ensure, as required by the relevant Special Directions to the Commission, that BC Hydro has an opportunity to avoid the significant underearning that has occurred in F2004.

Once interim rates are determined, full public review can be conducted in a manner that reflects the needs of the BC Hydro and intervenors and the Commission's schedule. BC Hydro wishes to make some comments on the process that public review should take.

BC Hydro respectfully submits that the process established for review of this application needs to recognize some key points:

1. BC Hydro has not had a comprehensive rate hearing for ten years. Consequently, this application will require a more extensive review than has been the norm for other utilities over the past number of years.
2. The volume of information required from BC Hydro and the analytical demands placed on stakeholders will be onerous and time-consuming. The process will depend on all parties and BC Hydro in particular being able to provide complete, accurate and considered information in response to requests from other parties.
3. The better the written record developed in advance, the more the oral phase hearing can focus on the true issues requiring Commission determination.
4. The application is based on data that represents BC Hydro's information as of 20 November 2003. The F2005 budgetary information will not be final until it receives Board approval in late January 2004 and data relating to some other significant variables (e.g., snow pack and reservoir levels) that affect the F2005 forecast will be much firmer than is presently the case by February next year.
5. BC Hydro's proposed capital planning and resource acquisitions in the test years may be affected by the final form of the IEP currently under development. The IEP is scheduled to be complete by 31 March 2004.

To accommodate these specific points and to take into account the evolving nature of the Commission's process, BC Hydro proposes the schedule set out in the attachment to this letter. It is intended to provide realistic time frames at each stage of the process to permit each party to discharge its obligations to the process responsibly. The first step in the process proposed in the schedule is a Prehearing Conference at which all would be given an opportunity to comment on the balance of the schedule.

The schedule also anticipates a workshop early in the process at which BC Hydro would provide an overview of the application to interested parties. If the Commission wishes, this initial workshop can be structured to be suitable for the Commission Panel hearing the application to attend.

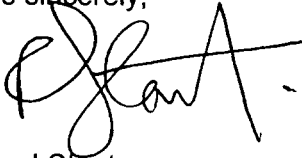
As an integral part of that schedule, BC Hydro would file an evidentiary update at the same time it files a response to the Commission's information requests in February. That update would advise the parties of any significant changes in BC Hydro's business or its forecast for F2005. The hearing could then proceed on the basis of data current to mid-February 2004.

In addition to the data update filed in February, BC Hydro would propose to circulate its new IEP after consultations have been completed and the Plan finalized. BC Hydro expects to be able to do this by early April 2004.

In summary, BC Hydro respectfully submits that the quality of the review will be significantly enhanced if a process and associated timetable that recognizes the particular demands on all stakeholders related to this application is established at the outset and offers the comments in this letter in an attempt to help facilitate that outcome. BC Hydro looks forward to discussing these procedural issues at the Prehearing Conference.

We have provided a copy of the application to the attached list of parties that have been particularly active in BC Hydro issues in the past. We will provide copies to additional parties upon request from the Commission and to all intervenors as soon as a list is developed.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R. Stout', with a long horizontal stroke extending to the right.

Richard Stout
Chief Regulatory Officer

Enclosure (20)

c: See attached distribution list

REVENUE REQUIREMENT APPLICATION

PROPOSED SCHEDULE

Application to BCUC	December 15, 2003
Pre-Hearing Conference No. 1	January 15, 2004
Workshop	January 16, 2004
{BCUC IRs to BCH	January 23, 2004
{BCH Responses and Evidentiary Update	February 20, 2004
{Intervenor IRs to BCH	February 24, 2004
{BCH Responses	March 19, 2004
BCH Direct Evidence	March 19, 2004
Intervenor Evidence	April 2, 2004
Pre-Hearing Conference No. 2	April 7, 2004
BCH IRs to Intervenors	April 8, 2004
Intervenor Responses to BCH	April 30, 2004
BCH Rebuttal Evidence	May 6, 2004
Oral Hearing Begins	May 10, 2004

**DISTRIBUTION LIST FOR HARD COPY/CD OF
BC HYDRO'S REVENUE REQUIREMENT APPLICATION
2004/05 AND 2005/06**

<p>Aquila Networks Canada (British Columbia) Ltd. 1290 Esplanade, PO Box 130 Trail, BC V1R 4L4</p>	<p>Mr. George Isherwood Regulatory Affairs Executive</p>
<p>Avista Energy Canada Ltd. 1006-1166 Alberni Street Vancouver, BC V6E 3Z3</p>	<p>Ms. Mary McCordic Director, Energy Marketing</p>
<p>BC Citizens for Public Power 608-207 West Hastings Street Vancouver, BC V6B 1H7</p>	<p>Mr. John Young Executive Director</p>
<p>BC Public Interest Advocacy Centre 815-815 West Hastings Street Vancouver, BC V6C 1B4</p>	<p>Mr. Richard Gathercole Executive Director</p>
<p>Boughton Peterson Yang Anderson Law Corporation Barristers & Solicitors Suite 1000 Three Bentall Centre 595 Burrard Street PO Box 49290 Vancouver, BC V7X 1S8</p>	<p>Mr. Gordon A. Fulton</p>
<p>Canadian Forest Products PO Box 9000 Prince George, BC V2N 4W2</p>	<p>Mr. Stephen C. Hilder</p>
<p>Elk Valley Coal Corporation c/o Pacific Western Energy Inc. 6209 Angus Drive Vancouver, BC V6M 3P2</p>	<p>Mr. J. David V. Newlands</p>
<p>International Brotherhood of Electrical Workers (IBEW) Union Local 258 7535 6th Street Burnaby; BC V3N 3M2</p>	<p>Mr. Doug S. McKay Business Manager & Financial Secretary</p>
<p>Independent Power Association of BC c/o Tupper Johnson & Yeadon Barristers & Solicitors 1710-1177 West Hastings Street Vancouver, BC V6E 2L3</p>	<p>Mr. David Austin</p>

Mr. James Campbell 2484 Shoreacres Road Sidney, BC V8L:2E2	
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Leader Mining International Inc. Suite 810, 400-Fifth Avenue S.W. Calgary, AB T2P 0L6	Mr. Julian Taylor Energy Consultant
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Terasen Gas Inc. 16705 Fraser Highway Surrey, BC V3S 2X7	Mr. Laurie Gray Manager, Regulatory Administration
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Mr. Chris Weafer Owen Bird Barristers and Solicitors 2900-595 Burrard Street PO Box 49130 Three Bentall Centre Vancouver, BC V7X 1J5	

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<p>ZE PowerGroup Inc. Unit 130-5920 No. Two Road Richmond, BC V7C 4R9</p>	<p>Ms. Aimee Ambrosone</p>